

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: March 7, 2007

Bill Number: H.B. 3567

Authors: Rice; Gullick; Cotty

Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend Section 12-21-620, of the Code of Laws of South Carolina, 1976, relating to taxation on cigarettes, so as to increase the amount of tax on each cigarette from three and one-half mills to two cents; to add Section 44-6-157 so as to provide that the revenue generated from the taxation on cigarettes must be used to expand Medicaid coverage to children eighteen years of age and younger whose family income does not exceed two hundred percent of the federal poverty level; and to create the Health Care Trust Fund to provide Medicaid benefits to individuals whose family income does not exceed one hundred percent of the federal poverty level and who are uninsured and to provide that revenue in excess of the children's Medicaid coverage from the cigarette tax must be credited to the Health Care Trust Fund; and to amend Section 12-36-910, as amended, relating to sales taxes generally, so as to provide that as of July 1, 2009, the three percent sales tax is eliminated on unprepared food which lawfully may be purchased with United States Department of Agriculture food coupons, to provide for certain general fund transfers to the Education Improvement Act Fund for each fiscal year to offset EIA revenues lost as a result of the loss of sales tax on the sale of unprepared food, and to reduce the sales tax on unprepared food to two percent as of July 1, 2007, and one percent as of July 1, 2008.

REVENUE IMPACT ^{1/}

This bill is expected to increase business license tax revenue by an estimated \$116,948,000 in FY2007-08. This bill would also reduce General Fund business license tax revenue by an estimated \$2,403,252 in FY2007-08. This bill also contains an E.I.A. hold harmless provision that will reduce General Fund revenue by \$14,800,000 in FY2007-08, \$16,200,000 in FY2008-09, and \$17,600,000 in FY2009-10. The food tax reduction would reduce General Fund revenue by \$73,828,000 in FY2007-08, \$80,754,000 in FY2008-09, and \$88,181,000 in FY2009-10.

Explanation

This bill would amend Section 12-21-620 to increase the levy on each cigarette made of tobacco or any substitute for tobacco to two cents on each cigarette. This equates to a 33-cent surcharge on each pack of 20 cigarettes, raising the state excise tax to 40 cents per pack of 20 cigarettes. The higher surcharge is expected to generate an estimated \$116,948,000 of business license tax revenue in FY2007-08. Of this amount, an estimated \$22,956,606 is allocated to the Department of Health and Human Services (DHHS) to expand coverage under the state Medicaid program to children eighteen years of age and under whose family income does not exceed two hundred percent of the federal poverty level. The remaining funds must be allocated to a new Health Care Trust Fund to be used by the DHHS to provide Medicaid coverage to individuals nineteen years of age and older who are uninsured and whose family income does not exceed one hundred percent of the federal poverty level. Because the higher tax will reduce cigarette demand, the Business License tax currently allocated to the General Fund will be reduced by an estimated \$2,403,252 in FY2007-08. This bill also reduces the sales and use tax rate on the sales of unprepared food purchased in grocery stores to two percent from July 1, 2007 through June 30, 2008, and to one percent from July 1, 2008 through June 30, 2009, and is eliminated effective July 1, 2009. The reduced rates of sales taxation on eligible food items purchased in grocery stores will reduce sales and use tax revenue by an estimated \$73,828,000 in FY2007-08, \$80,754,000 in FY2008-09, and \$88,181,000 by FY2009-10. This bill also contains an Education Improvement Act (EIA) hold harmless provision. The amount of revenue that the EIA would have received is to be estimated by the BEA and transferred from the General Fund to the EIA Fund. We estimated the EIA hold harmless amounts to be \$14,800,000 in FY2007-08, \$16,200,000 in FY2008-09, and \$17,600,000 in FY2009-10.

/s/ WILLIAM C. GILLESPIE, PH.D.

William C. Gillespie, Ph.D.
Chief Economist

Analyst: Martin

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.